

Message Text

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PAGE 01 STATE 214853

43

ORIGIN ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

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TO AMEMBASSY LIMA PRIORITY

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E.O. 11652: N/A

TAGS: EFIN, EMIN, ETRD, PE

SUBJECT: SPCC CUAJONE PROJECT - PROBLEM RE FINANCING PACK-
AGE.

1. CHARLES BARBER, CHAIRMAN AMERICAN SMELTING AND REFINING CO., MAJOR STOCKHOLDER IN SOUTHERN PERU COPPER CORP. (SPCC), TELEPHONED EP SEPT. 30 TO REPORT THAT COMPLETION OF FINANCING OF 640 MILLION DOLLARS CUAJONE PROJECT APPEARS TO BE IN 'GRAVE PERIL,. HE WANTED USG TO BE AWARE OF MATTER AND SUGGESTED ACTION HE FELT US OFFICIALS MIGHT APPROPRIATELY TAKE. END SUMMARY.

2. BARBER SAID CONTRACTS FOR SALE OF CUAJONE COPPER WERE SIGNED OR INITIALED IN GENEVA SEPT. 18-20, AND RELATED SECURITY DOCUMENTS NOW BEING PROCESSED. ALL OF REQUIRED FINANCING HAS BEEN COMMITTED, SUBJECT TO CONSENT OF MORE THAN FIFTY PARTICIPATING BANKS TO WAIVER LETTERS REFLECTING CERTAIN CHANGES FROM THE ASSUMPTIONS ON WHICH ORIGINAL
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COMMITMENTS WERE MADE ALMOST YEAR AGO. NEGOTIATIONS RE

WAIVER LETTERS ARE UNDER FINAL REVIEW PROCEDURES, AND SERIOUS PRESSURES ARE APPARENT ON PART OF CERTAIN OF PARTICIPATING BANKS AS RESULT OF DETERIORATING WORLD FINANCIAL SITUATION.

3. ACCORDING BARBER, GOP LAST WEEK PROPOSED CERTAIN CHANGES IN BASIC STRUCTURE OF TWO OF COPPER SALES CONTRACTS WITH EUROPEAN PURCHASERS ORDER DEAL WITH LOCAL PROBLEM RELATING TO TAXATION IN PERU. SPCC'S BANK ADVISERS INFORM IT THAT SUCH CHANGES, WHICH WOULD REQUIRE CHANGES IN BASIC SECONDARY DOCUMENTS, WOULD PUT ALREADY-ARRANGED FINANCING IN GRAVE PERIL. (BARBER SAID BANK ADVISERS SAY CHANGES "NOT DO-ABLE".)

4. BARBER STATED SPCC IS DISCUSSING PROBLEM WITH GOP REPRESENTATIVES IN PERU BUT LATTER HAVE SO FAR BEEN UNWILLING TO COMPLETE ARRANGEMENTS AS PREVIOUSLY AGREED UPON. ALTHOUGH THESE DEVELOPMENTS APPEAR TO RELATE ONLY TO FORM AND NOT TO SUBSTANCE OF TRANSACTION, SPCC DEEPLY CONCERNED THAT THEY MAY CAUSE BREAKDOWN IN FINANCING ARRANGEMENT.

5. BARBER SAID HE KNEW USG HAD ASSUMED CUAJONE FINANCING PACKAGE GOING SMOOTHLY AND HE WANTED IT TO BE AWARE THIS NOT THE CASE, ESPECIALLY SINCE EXIMBANK AND IFC PARTICIPATING IN FINANCING. HE ALSO SUGGESTED WOULD BE HELPFUL FOR APPROPRIATE US OFFICIAL TO EXPRESS CONCERN TO MINISTER OF

ECONOMY AND FINANCE VARGAS, WHO IN WASHINGTON FOR IMF/IBRD MEETINGS AND WHO WELL-INFORMED ON SUBJECT. HE SAID DETAILS OF PROBLEM EXTREMELY COMPLEX AND HE DID NOT BELIEVE IT FEASIBLE TO GO INTO THEM BY PHONE. INGERSOLL

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